APPRAISAL REVIEW REPORT Proposed Land Banking Sales Sale #'s 262, 263, 264, 265 & 271 Madison County, Montana Effective Date: November 2, 2008

Prepared for:
State of Montana
Department of Natural Resources and Conservation
Trust Land Management Division
Real Estate Management Bureau
1625 11th Avenue
Helena, MT 59620

Prepared by:
Thomas J. Konency, Appraiser
State of Montana
Department of Natural Resources and Conservation
Trust Land Management Division
Real Estate Management Bureau
1625 11th Avenue
Helena, MT 59620

REVIEWER'S SUMMARY OF SALIENT FACTS

Clients & Intended Users of Review: The clients are the State of Montana, the Montana Board of Land Commissioners, and the Montana Department of Natural Resources and Conservation (DNRC). The intended users are the clients, the Real Estate Management Bureau of the DNRC Trust Land Management Division, and the Central Land Office.

Intended Use of Review: The purpose of this review is to provide the clients and intended users with an opinion of the quality of the appraisal report under review. The intended use of the review will be for use in the decision making process for the setting of minimum bid prices for the potential sale of the subject properties at public auction.

Present Owner: State of Montana Property Interest Appraised: Fee Simple

Subject Properties, Acreages, Legal Descriptions & Locations:

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Sale #	Acres	Legal Descriptions	Location
262	40	SE ¹ / ₄ NW ¹ / ₄ , Sec. 31, T8S-R4W, Madison County	13 Miles S of Alder
263	40	SE ¹ / ₄ NE ¹ / ₄ , Sec. 30, T8S-R4W, Madison County	13 Miles S of Alder
264	40	SE ¹ / ₄ SW ¹ / ₄ , Sec. 33, T8S-R4W, Madison County	13 Miles S of Alder
265	120	N ¹ / ₂ SW ¹ / ₄ , SW ¹ / ₄ SW ¹ / ₄ , Sec. 32, T8S-R4W, Madison County	13 Miles S of Alder
271	40	SW ¹ / ₄ NE ¹ / ₄ , Sec. 32, T8S-R4W, Madison County	13 Miles S of Alder

Present Use: Ag: native grazing Highest and Best Use: Ag: native grazing

Dates: The effective date of the appraisal and review is November 2, 2008.

Purpose and Intended Use of the Appraisals: The purpose of the appraisal is to ascribe fair market values to the subject properties. The intended use is market value for sale-bid. The appraiser states it is his understanding that the purpose of the appraisal is to establish fair market value which can be utilized in the potential negotiations between the ranch and the Sate of Montana relative to the purchase of the subject properties.

Appraiser's Opinions of Values of Real Estate: The appraiser reported the following estimates of market values, as of November 2, 2008, for the five subject properties, both with the **hypothetical condition** of legal access and in the "as is" condition of without legal access.

Sale #	Value With Legal Access	Value Without Legal Access
262	\$27,000	\$16,200
263	\$27,000	\$16,200
264	\$27,000	\$16,200
265	\$81,000	\$48,600
271	\$27,000	\$16,200

Reviewer's Comments: This reviewer finds the report does not follow the required scope of work, does not appear credible and that it is not acceptable. It is this reviewer's opinion that the appraiser's estimates of values for the separate parcels are not properly supported. This review is not a stand alone document and is expressly interrelated to the appraisal report.

APPRAISAL REVIEW REPORT

Client & Intended Users of Review:

The clients are the State of Montana, the Montana Board of Land Commissioners, and the Montana Department of Natural Resources and Conservation (DNRC). The intended users are the clients, the Real Estate Management Bureau of the DNRC Trust Land Management Division, and the Central Land Office.

Purpose and Intended Use of Review:

The purpose of this review is to provide the clients and intended users with an opinion of the quality of the appraisal report under review. The intended use of the review will be for use in the decision making process for the setting of minimum bid prices for the potential sale of the subject properties at public auction. An opinion of the quality of the appraisal report as well as this reviewer's opinion of the credibility of the values estimated will be reported. The appraisal was submitted by N. Clark Wheeler, of Norman C. Wheeler and Associates, Bozeman, MT. This review report is not a stand alone document and is expressly interrelated to the appraisal report under review, which the reader may need to refer to for further detail.

This appraisal report currently under review is actually the second appraisal that has been done on the parcels.

Subject Property, Acres, Legal Description, Location & Owner of Record:

The subject properties consist of five separate, non-contiguous parcels located in Madison County, Montana. The subjects are all vacant native rangeland/dry pasture parcels with some scattered rock outcroppings and a few scattered trees. Terrain ranges from slightly rolling to sloping with elevations from 5,800 to 6,000. Currently none of the parcels have legal access.

Below are the correct legal descriptions for the subject parcels.

Sale #	Acres	Legal Descriptions	Location
262	40	SE ¹ / ₄ NW ¹ / ₄ , Sec. 31, T8S-R4W, Madison County	13 Miles S of Alder
263	40	SE ¹ / ₄ NE ¹ / ₄ , Sec. 30, T8S-R4W, Madison County	13 Miles S of Alder
264	40	SE ¹ / ₄ SW ¹ / ₄ , Sec. 33, T8S-R4W, Madison County	13 Miles S of Alder
265	120	N½SW¼, SW¼SW¼, Sec. 32, T8S-R4W, Madison County	13 Miles S of Alder
271	40	SW ¹ / ₄ NE ¹ / ₄ , Sec. 32, T8S-R4W, Madison County	13 Miles S of Alder

Additional information, photos and maps are contained on the appraisal report.

The State of Montana has owned the properties for at least five years.

Appraiser's Estimates of Values:

The appraiser reported the following estimates of market values, as of November 2, 2008, for the five subject properties, both with the hypothetical condition of legal access and in the "as is" condition of without legal access. USPAP defines hypothetical condition as: that which is contrary to what exists but is supposed for the purposes of analysis. Use of this hypothetical condition mentioned here and elsewhere in the report might have affected the assignment results.

Sale #	Value With Legal Access	Value Without Legal Access
262	\$27,000	\$16,200
263	\$27,000	\$16,200
264	\$27,000	\$16,200
265	\$81,000	\$48,600
271	\$27,000	\$16,200

Scope of Review:

The reviewer will be reviewing and making an opinion about the quality of the appraisal under review, along with providing an opinion of the credibility of the values reported. It should be noted that this is the second appraisal that has been done recently on the subject parcels. The first appraisal was completed in July 2008 by New Frontier Ranches.

The reviewer's opinion of appraisal quality and opinion of the credibility of the values reported will be based on the material submitted in the report under review and information gathered through other sources including driving up to and viewing the twelve comparable sales used in the first appraisal's valuation section and also used in this appraisal's highest and best use section. After the field viewing of the twelve sales, information about road/trail access, fencing and utilities was also requested from New Frontier Ranches. Several of the ranch sales used in this appraisal's valuation section were also partially viewed. The subject parcels were not inspected but only viewed as best as possible from the county roads. Tim Egan, the Dillon Unit Manager, actually drove during the viewing of the comparables and subjects. Limited use has been made of information on the cadastral system, (such as legal descriptions, ownership, maps, aerial photos and topography maps, etc...). Both Vigilante Electric Cooperative and Northwest Energy were contacted. This reviewer also relied upon some very general knowledge of sales and listings in Montana and the subject's general market area. No research for additional comparable sales was done and no other in-depth market research was done.

This report is limited to whether the appraiser's estimates of values appear appropriate or unsupported. In this review, this reviewer has not developed any actual estimates or opinions of value. This review is not a stand alone document and is expressly interrelated to the appraisal report, which the reader may need to refer to for further detail.

Date of Appraisal, Estate Appraised & Date of Review:

The effective date of the appraisal is November 2, 2008 and the date of the report is November 21, 2008. Property rights appraised are fee simple. Although it is not stated in the appraisal report, this reviewer assumes that fee simple is done by using the **hypothetical condition** that no leases or licenses exist on the parcels as instructed in the scope of work from the state. **The use of this hypothetical condition might have affected the results.**

The appraisal report provides more detail about the rights appraised and also the market value definition. The reader is referred to the report for more information. The effective date of the review is November 2, 2008, with the review report date being February 27, 2009.

Client & Intended Users and Purpose & Intended Use of the Appraisal Report:

The intended users identified in the appraisal report are Turner Enterprises Incorporated, the Montana Board of Land Commissioners, and the Montana Department of Natural Resources and Conservation (DNRC), and this mainly complies with the required scope of work.

In contrast, it is not really clear who exactly the clients of the appraisal report are. The appraiser inserts a text box containing instructions from the state which show the clients are to be the State Land Board and Department, but several times in the narrative and in the cover letter only Turner Enterprises Incorporated are named. It is not clear if the State, Board and Department are clients, therefore this report does not follow the required scope of work.

The appraiser states the purpose of the appraisal is to ascribe fair market values to the subject properties, and states the intended use is market value for sale-bid. The appraiser also states it is his understanding that the purpose of the appraisal is to establish fair market value which can be utilized in the potential negotiations between the ranch and the Sate of Montana relative to the purchase of the subject properties. It is unclear if this stated intended use really follows the scope of work as there is no negotiated purchase of the subject parcels in the Land Banking program. The Board decides the minimum bid amount and the parcels are then sold at public auction.

Appraiser's Subject Property Data & Analysis:

The scope of work requires two valuations if possible. One value with the **hypothetical condition** of legal access, and if sufficient, appropriate evidence is available, another value with the parcels in their "as is" condition without legal access.

It is imperative that these two distinct concepts, **hypothetical condition** of legal access, and "as is" condition of without legal access, are each analyzed properly.

The appraiser fails to show clearly that each concept was properly considered and thus valued accordingly. As such the appraisal does not follow the required scope of work.

Appraiser's Highest and Best Use Analysis:

The subject sale parcels are currently used for agricultural purposes as native grazing. The appraiser determined through his analysis that the Highest and Best Use of the subject properties is for agricultural purposes as native grazing. In fact, the appraiser feels that the parcels can not be standalone properties and only have value if considered as part of a larger ranch. The appraiser states the analysis emphasized financial feasibility. Following is a summary of the appraiser's analysis.

The appraiser starts his analysis by looking at 15 sales of 20-acre lots in a subdivision. The subdivision is large and contains 180 lots total. Three of the reported sales have higher sale prices and the rest of them, the "interior" sales, have lower sale prices. The intent is to show that tracts not adjacent to public lands sell for 50% less than the tracts adjacent to public lands. And those tracts not relatively close or with easy access to public lands sell for approximately 25% less than tracts close to or with easy access to public lands.

These adjustments are then applied to the twelve sales from the first appraisal. Note: the twelve sales from the first report are only used by this appraiser in his highest and best analysis section to diminish a highest and best use of residential/recreational, and not in his valuation section.

From these twelve adjusted sales the appraiser deducts costs to build roads and install power. The appraiser concludes at this point that since the subject parcels lack roads, power and ready access to public lands it is not financially feasible for the parcels to be used for the anything but grazing land.

Lastly in his analysis, the appraiser states that without fencing and a developed water source the parcels lack utility and thus should not be stand-alone parcels.

The appraiser's reasoning as presented is flawed. The issues will be addressed in the same order as addressed in the appraiser's analysis. First is the public lands adjacency/accessibility issue in the subdivision sales analysis:

- That in fact the highest priced subdivision sale is not adjacent to public lands and per review of the aerial photos in cadastral, does not have access to public lands any better than the lower priced "interior" sales.
- That per cadastral records, the other two highest priced sales adjacent to public lands were purchased by neighboring property owners and the appraiser does not address this or explain if there is any affect on sales prices.
- The appraiser does not properly address that there is an "interior" sale that is within 17% of the price of a tract adjacent to public lands.
- The appraiser fails to show how older sales in a large subdivision relate to rural parcels in a more open area.

The public lands adjacency/accessibility issue as applied to the twelve sales from the first appraisal:

• The twelve sales from the first appraisal are actually newer, rural, small property sales, and directly comparable to the subject properties. Some of these twelve sales are adjacent to public lands; some are not readily accessible to public lands. Review of these twelve sales does not support the appraiser's theory about 50% and 25% adjustments for public lands accessibility.

Next are the roads and power issues, with the results of the field viewing and information that was gathered. (The twelve sales from the first appraisal are numbered here. Some of the twelve sales have roads and power, some do not.):

- Sales 6, 8, and 10 only have two-track access and no power to them.
- Sales 1, 7 and 12 have long gravel road access, being very difficult to travel with snow. Sale 1 only has power to the neighborhood not the tract itself. Sale 12 when sold only had power to the general area. Sale 7 does not have power.
- Sales 2 & 3 only had two-track access and did not have power at time of sale.
- Only Sales 4, 5, 9 & 11, the four highest priced sales, have good county road access and have power to the tracts

(Related to the road issue, this reviewer should pint out that the "high amenity development road" to the large subdivision mentioned before, was closed and access was by snowmobile only.

Next is fencing and developed water and other features:

- None of the rural sales had much if any fencing and none had developed water sources.
- Sales 9 and 11 have dredge piles and tailings on them.

Last is the conclusion that without roads, power and direct access to public lands the parcels lack any reasonable desirability in the market. This reviewer has seen a number of parcels throughout Montana which have been listed and sold that don't have developed road access, power, or direct public lands access. These include market areas not considered as desirable as the Ruby Valley.

This reviewer finds the highest and best use analysis is not supported. This reviewer does not concur with the Highest and Best Use determination made.

Appraiser's Valuation Process:

The appraiser determined the Sales Comparison Approach to be the only applicable guide to the value of the parcels. The reviewer concurs with this determination. However, in the appraisal report's valuation section, the appraiser actually tries to compares five ranch sales of 3,800-acres, 5,601-acres, 7,808-acres, 8,329-acres, and 11,883 acres, to parcels that are only 40 and 120 acres in size. (One ranch sale, with the highest allocated grazing land price, is not used) This huge disparity in size should have directed the appraiser to realize that his highest and best use analysis was flawed and the resulting valuation is improper.

The appraiser's values for the subject parcels in their "as is" condition without legal access are not developed through use of actual comparable sales. The appraiser states he has established a percentage adjustment for lack of legal access through use of other sales information and information in his highest and best use analysis. This percentage adjustment is applied to the values determined with the **hypothetical condition** of having legal access. The support for this adjustment is not clear or well-defined.

However since the highest and best use analysis is flawed, the results of the valuation process with the **hypothetical condition** of legal access is unsupported, and the values "as is" without legal access are also not supported.

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This reviewer finds numerous serious problems with the appraisal. The main concerns are addressed in the sections above covering, Client, Subject Property Analysis, Highest and Best Use Analysis and Valuation Process. This reviewer finds the report does not follow the required scope of work, does not appear credible and that it is not acceptable. It is this reviewer's opinion that the appraiser's estimates of values for the separate parcels are not properly supported.

Dated: February 27, 2009

Thomas J. Konency, Appraiser

Montana Dept of Natural Resources & Conservation, Trust Land Mgt Div

ASSUMPTIONS AND LIMITING CONDITIONS

The certification of the appraiser appearing in the appraisal review report is subject to the following conditions and to such other specific and limiting conditions as set forth in the review report.

- 1. The appraiser will not be responsible for matters of a legal nature affecting either the property being appraised or the title to it. Except for information that was provided or uncovered during the research involved in performing the appraisal review and ordinarily employed by real estate appraisers, no opinion is intended to be expressed for legal matters or that would require specialized knowledge or investigation. The appraiser assumes that the title is good and marketable, ("free and clear"), and, therefore, will not render any opinions about the title. The property is appraised on the basis of it being under responsible ownership and/or competent management. Unless otherwise mentioned in this review report, the property is appraised as if owned in fee simple title without encumbrances.
- 2. The appraiser assumes that the legal descriptions furnished are correct and the appraiser has not surveyed the property. Acreage of land types and measurements of improvements are based on physical inspection of the property or information provided unless otherwise noted in the report. Sketches or drawings in this report are included to assist the reader in visualizing the property. They are not to be considered a legal survey or engineer's plan of any kind. Any and all other sketches, drawings, maps, etc., are also provided for informational purposes only and are not for any legal reference. Access has been investigated only to the satisfaction of the appraiser. No assurance of legal access, or lack of, is expressed or implied as a legal opinion. The same is true of encroachment and trespass issues.
- 3. The appraiser has noted in the appraisal review report any adverse conditions, (such as, but not limited to, needed repairs, depreciation, the presence of hazardous wastes, toxic substances, flood planes, etc), observed during the routine inspection of the subject property, and/or adjacent properties, or that was discovered during the normal research involved in performing the appraisal review. Unless otherwise stated in this report, the appraiser has no knowledge of any hidden or unapparent conditions of the property, and/or adjacent properties, or adverse environmental conditions, (including, but not limited to, the presence of hazardous wastes, toxic substances, etc), that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied, regarding the condition of the property. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, the appraisal review report must not be considered as an environmental assessment of the property. Concerns about soil conditions, actual condition of improvements or systems, or property conformity to zoning, building, fire, ADA, and other such applicable laws, regulations, rules and codes, should all be referred to the proper experts.

- 4. The appraiser is not an expert in minerals, mineral rights, timber, timber volumes, crops, farm programs or water requirements and rights. Unless otherwise noted, only surface rights will be appraised or reviewed with no value specifically allotted to the mineral rights or deposits. Timber values, if considered a part of the report, will rely on proper experts, as will farm programs. Typically, growing crops are not considered in the appraisal report. Usually it is assumed the water rights have been secured or perfected, with their value generally considered an inherent part of the land value, with any deviation from this to be included in the report. Rental and lease agreements, conservation plans, options and other situations may also require reliance on proper experts.
- 5. The appraiser has obtained information, opinions, estimates, surveys, plans, maps and information on regulations, restrictions and studies, etc., from various sources including the property owner, agent, or manager, as well as from real estate professionals, government agencies, appraisers and other sources. Unless otherwise noted, the sources are considered reliable and the information is complete and correct. However, the appraiser does not assume responsibility for the accuracy of such items that were furnished by other parties.
- 6. The appraiser assumes no responsibility or liability for future conditions, about which information was not supplied or readily available or was not public knowledge at the time the appraisal is made, nor for the effect of events, which might concern the value of the subject property subsequent to date of appraisal. Montana is a non-disclosure state and as such sales prices of real estate are not publicly recorded. Therefore, with few consolidated sources of sales information existing, and no obligation to release or verify information by many of the parties associated with the transactions, sales of comparable properties may not be know of by this appraiser, and absolute verification of the sales found may not be possible.
- 7. The scope of work has been disclosed in the report and is specific to the needs of the clients and intended users and the intended use. All extraordinary assumptions and hypothetical conditions, including, but not limited to, satisfactory completion and repairs or alterations, will be noted in the appraisal report. It is assumed there will be consistency with all the plans, estimates, specifications, planned work, projections, or requirements, initially provided. Deviation from those items may affect the value reported. Great effort has been taken to eliminate all error in identifying, developing and processing the report. However, if errors or omissions are found, they will have to be reviewed to see if they will affect the opinion of value reported.
- 8. The appraiser will not disclose the contents of this appraisal review report except as provided for in the Uniform Standards of Professional Appraisal Practice, and/or applicable federal, state, or local laws, rules or regulations. The appraiser is not obligated to/by any unauthorized use of this report by third parties or the "extraction" of only parts of the report and attempting to apply those parts in any other process or to reach a conclusion.
- 9. It is assumed that there has not been any significant change, physical or otherwise, to the subject property between the inspection date and date the report is signed.

APPRAISER'S CERTIFICATION: This review appraiser certifies and agrees that:

- 1. I have no present or prospective interest in the property that is the subject of this report and review, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in the appraisal review report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
- 2. My employment and/or compensation for performing this appraisal review or any future or anticipated appraisal reviews was not conditioned on any agreement or understanding, written or otherwise, that I would report (or develop or present any analysis, opinions or conclusions supporting) a predetermined specific value, a predetermined minimum or maximum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific event or action, or the subsequent event directly related to the use of this appraisal review report.
- 3. I have taken into consideration the factors that have an impact on value in the development of my opinion of market value for the subject property. I have noted in the appraisal review report any adverse conditions, (such as, but not limited to, needed repairs, depreciation, the presence of hazardous materials, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing the appraisal review. I have considered these adverse conditions in my analysis of the property value to the extent that I had market evidence to support them, and have commented about the effect of the conditions on the marketability of the subject property.
- 4. I have not knowingly withheld any significant information from the appraisal review report that would have an impact on value and I believe, to the best of my knowledge, that all statements and information in the appraisal review report are true and correct. I have stated in this appraisal review report only my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the limiting conditions specified in this appraisal review report.
- 5. To the best of my knowledge, I have preformed this appraisal review in conformity with the Uniform Standards of Professional Appraisal Practice. I have personally analyzed and prepared all the conclusions and opinions about the real estate that are set forth in this appraisal review report. If I have relied on significant real property appraisal or review assistance from any individual(s) in the performance of the appraisal review or preparation of the appraisal review report, I have named such individual(s) and disclosed the specific tasks preformed in the appraisal review report. I certify that any individual(s) so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in the appraisal review report; therefore, any change made to the appraisal review is unauthorized and I take no responsibility for it.

	Dated: February 27, 2009
Thomas J. Konency, Appraiser	

Montana Dept of Natural Resources & Conservation, Trust Land Mgt Div